



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0169	Title:	Revise individual income tax laws
Primary Sponsor:	Wittich, Art	Status:	As Amended in the House

- ☐ Significant Local Gov Impact
 ☐ Needs to be included in HB 2
 ☒ Technical Concerns
- ☐ Included in the Executive Budget
 ☐ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$25,811,000)	(\$51,691,000)	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$25,811,000)</u>	<u>(\$51,691,000)</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: As amended in the House, this bill would create a temporary credit for property tax on a taxpayer's residence and would temporarily reduce income tax rates for 2015 and 2016. This would reduce general fund revenue by \$25.8 million in FY 2016, and by \$51.7 million in FY 2017.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would create a nonrefundable credit of up to \$100 for property tax on a taxpayer's primary residence. Taxpayers who take the credit must reduce their itemized deduction for property taxes by the amount of the credit. This credit would only be available for TY 2016.
2. For tax years 2015 and 2016, this bill would set income tax, before credits, equal to 97.5% of the tax calculated from the rate table.
3. The Census Bureau estimates that there are approximately 271,000 owner-occupied housing units in Montana. About 11,000 of these property owners have incomes that are too low to pay income tax. About another 10,000 have incomes low enough that they would pay less than \$100 in income tax.
4. Full credits of \$100 would be claimed by 250,000 taxpayers, and 10,000 taxpayers would claim partial credits averaging \$50. Total credits would be \$25.5 million per year.

5. The income tax forecasting model was modified to reflect the temporary rate reduction and lower property tax deductions for taxpayers who claim the credit. The modified model predicts tax liability that is lower than the baseline by \$25.811 million for TY 2015, and by \$26.191 million for TY 2016.
6. Few taxpayers would adjust their withholding or estimated payments because of the credits and temporary rates in this bill. Most would receive larger refunds or make smaller payments when they file their returns. Thus, the revenue reductions for TY 2015 would occur in FY 2016, and the revenue reductions for TY 2016 would occur in FY 2017. The following table shows the combined revenue impact of the credit and rate reductions.

Change in General Fund Revenue	
(\$ million)	
FY 2016	FY 2017
-\$25.811	-51.691

7. The department would make changes to tax returns and instructions as part of the normal annual update process with no additional costs.

Fiscal Impact:	FY 2016	FY 2017	FY 2018	FY 2019
<u>Department of Revenue</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	<u>(\$25,811,000)</u>	<u>(\$51,691,000)</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Revenues	<u>(\$25,811,000)</u>	<u>(\$51,691,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	<u>(\$25,811,000)</u>	<u>(\$51,691,000)</u>	<u>\$0</u>	<u>\$0</u>

Technical Notes:

1. Based on experience with previous property tax credits, there are likely to be many questions regarding eligibility. Areas where issues are likely to arise include people who have moved during the year, dwellings that are jointly owned by two or more owners, dwellings that are part of a larger parcel, and dwellings that are indirectly owned through a business entity. The department will need to adopt administrative rules to deal with these issues. It would provide clarity if the bill had language recognizing these issues.
2. Section 2 temporarily reduces income tax rates, but specifies that the reductions would not take place in a year when a general fund budget deficit has been projected under 17-7-140, MCA. 17-7-140, MCA, provides a schedule for the budget director to make this determination, with trigger points in January, March, and October. Income tax returns have been revised and sent to the printer and printing has begun by October. The department would need to either quickly revise and reprint forms, or come up with another way to ensure that taxpayers calculate the correct amount of tax. This would likely involve additional costs.

Sponsor's Initials_____
Date_____
Budget Director's Initials_____
Date